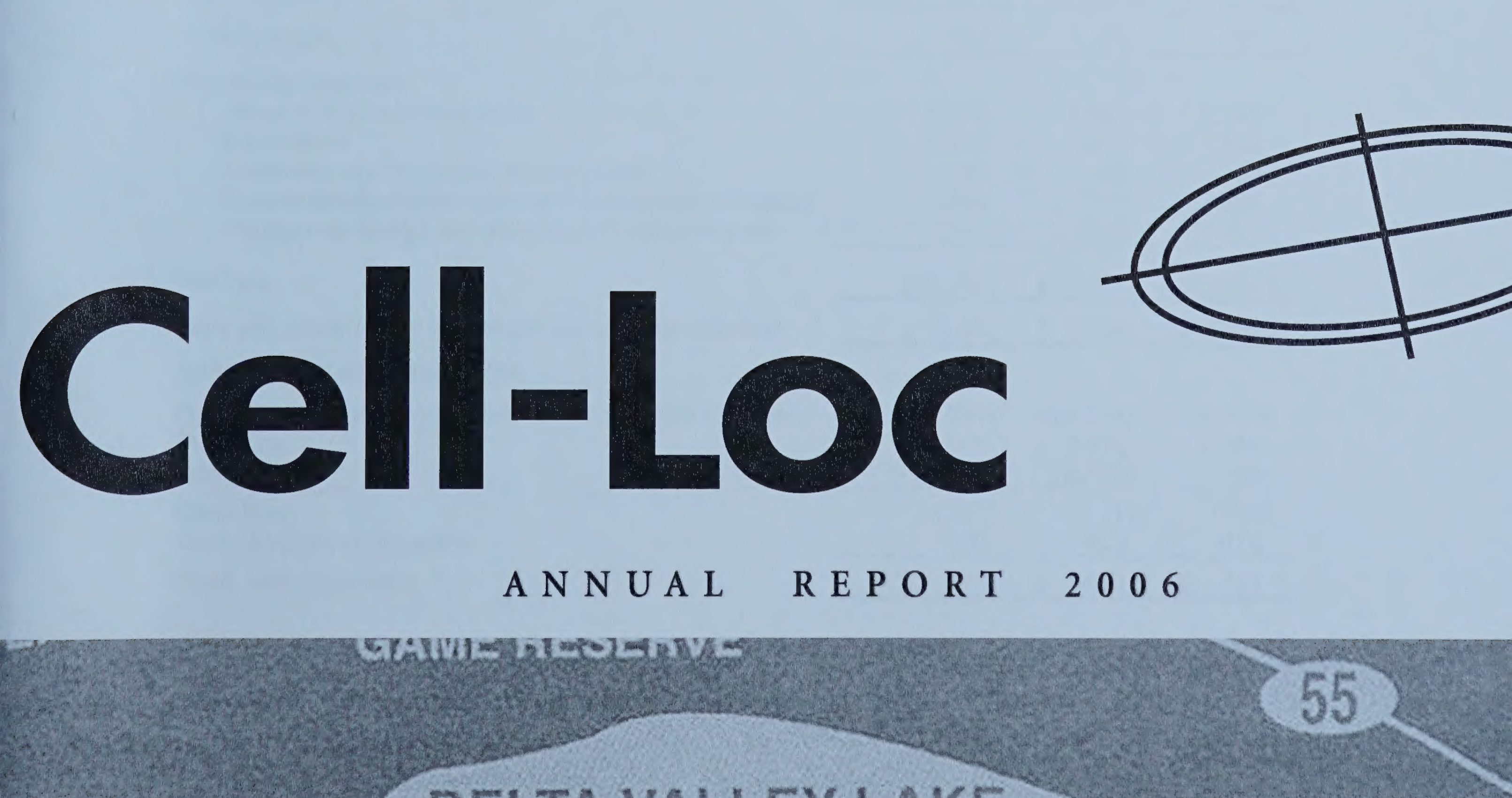
Cell-Loc

ANNUAL REPORT 2006



Cell-Loc

April 17, 2007

Management's Discussion and Analysis

The following Management's Discussion and Analysis ("MD&A") of Cell-Loc Location Technologies Inc. (the "Company" or "CLTI") for the periods ended December 31, 2006 and December 31, 2005 should be read in conjunction with the audited annual consolidated financial statements and the accompanying notes (the "Financial Statements and Notes"). All financial amounts are expressed in thousands of Canadian dollars, except per share dates and where otherwise indicated.

Forward-Looking Information

The MD&A has been prepared from the Financial Statements and Notes and contains forward-looking statements that are not historical in nature and involve risks and uncertainties. Forward-looking statements are not guarantees as to the Company's future results since there are inherent difficulties in predicting future results. Accordingly, actual results could differ from those expressed or implied in the forward-looking statements.

Financial Highlights

(in thousands of Canadian dollars)	2006	2005	2004
STATEMENT OF OPERATION INFORMATION			
Revenue	$ 1,507	$ 41	$ 101
Cost of sales	600		
Gross margin	907	41	101
Operating expenses			
General and administration	3,372	2,681	2,299
Operations	1,486	270	432
Marketing and business development	86	20	63
Depreciation, amortization and write-down of assets	1,835	317	409
Foreign exchange, net interest and other income	(240)	355	(11)
Net loss	$(5,632)	$(3,602)	$(3,091)
Loss per share ($ per share) (diluted and non-diluted)	$ (0.06)	$ (0.06)	$ (0.09)
CASH FLOW INFORMATION			
Operating (including non-cash working capital changes)	$(4,584)	$(3,252)	$(2,450)
Financing	5,571	7,026	2,355
Investment	(1,167)	(3,775)	(98)
Cash flow	(180)	(1)	(193)
Cash, beginning of period	420	421	614
Cash, end of period	$ 240	$ 420	$ 421

BALANCE SHEET INFORMATION

Working capital	$ 1,426	$ 597	$ 365
Network, capital and intellectual property assets	7,852	8,338	4,880
Total Assets	9,853	9,929	5,414
Government assistance and Long-term debt	220	508	3,889
Shareholders' equity	9,058	8,427	1,355

Corporate Strategy

The Company is the developer of a family of network-based wireless location products that enable location-based services. Networks are currently deployed in São Paulo, Brazil, Calgary, Alberta and Saskatoon, Saskatchewan.

CLTI has focused its efforts during the past two years on constructing its network in São Paulo and developing the commercial operation and business model. Through the deployment of its network and commencement of commercial operations in a world-class city such as São Paulo, the Company has proved the application of its technology and the economics of its business. The Company plans to further enhance revenue opportunities in the stolen vehicle market in São Paulo beyond the number of vehicles committed under initial agreements, as well as develop additional vertical markets utilizing the existing network. The São Paulo network has also been used to showcase the technology potential to other international prospective customers.

CLTI's strategy is to execute a large scale roll-out of its technology through qualifying potential candidates for licensing geographic territories or vertical market opportunities or partnering with parties on a joint venture basis. The Company is currently entertaining discussions with international companies with interest in utilizing the Company's intellectual property on a global basis.

Corporate Overview

During the year, the main activity of the Company was the completion and commercialization of a major wireless location network in São Paulo, Brazil. The Company invested $1,167 in completing the network and acquiring capital assets during 2006 (2005 - $3,659). The network passed a third party audit and was deemed commercial in June 2006, when the Company began installing beacons and earning revenues.

The Company financed the cost of operations and the deployment of the network in São Paulo through issuance of common stock for net proceeds of $5,517.

São Paulo Network

CLTI designed and deployed the São Paulo wireless location network using its proprietary technology. The network is designed to provide coverage throughout a specified area of approximately 3000 square km. in Greater São Paulo. Antenna attached to base stations, are installed on towers and rooftops throughout the coverage area. The Company has entered into lease agreements with several tower companies and other landlords with terms varying from one month to five years.

The Company has contracted a Brazilian manufacturer to cost-effectively produce the proprietary beacons for the network. The Company has been responsible for the design and operations of the manufacturing process and test procedures.

CLTI has established a call centre to contact customers and schedule installation of beacon devices. It also has established installation centres at several locations throughout the coverage area at which beacons are installed in customer vehicles.

The Company entered into an agreement with Itaú Seguros S.A. ("Itaú Seguros"), the insurance subsidiary of Investimentos Itaú S.A., under which an initial predefined number of the insurer's vehicles will be equipped with a beacon. Itaú Seguros pays an annual fee for each beacon in the month following its installation. Subject to achieving the installation targets, the contract will provide minimum guaranteed revenue of $4.6 million per year. The Company's network is responsible for providing real time location of stolen vehicles, and if required, remote immobilization. Itaú Seguros has contracted separately with a security company to perform vehicle recovery actions when an incident occurs. The security company uses CLTI technology to effect the recovery.

During 2006, the Company installed 10,272 beacons in vehicles insured by Itaú Seguros. The installation rate in 2006 was lower than expected by both parties. There were 4,583 beacons installed in the first quarter of 2007 but the rate is expected to reach 3,000 per month in April. Additional opportunities exist for stolen vehicle monitoring as well tracking and asset monitoring. The Company believes that market demand is robust given the security environment in Brazil and the competitive cost advantage of the beacon relative to other devices.

Other Networks

The Company continues to assess business development activities with its partner, Location System Solutions Inc. ("LSSI"), a company controlled by Mr. Keith Bohn (a director of CLTI) for the Calgary wireless location network. In addition to the existing Calgary network, LSSI also owns the rights to participate in Austin, Texas and any further networks to be developed in Alberta.

During the year, CLTI received $500 from LSSI under a license agreement for the Greater Vancouver territory. The Vancouver network will be built and operated through a jointly owned entity, which will be owned 51% CLTI and 49% LSSI.

The Company operated its network in Saskatoon through its 75% subsidiary, CityTrac Ltd.

Results of Operations

During the year ended December 31, 2006 the Company incurred a net loss of $5,632 (six cents per share) compared to a net loss of $3,602 (six cents per share) for the year ended December 31, 2005.

Revenues

	December 31, 2006			December 31, 2005		
($000's)	Canada	Brazil	Total	Canada	Brazil	Total
License revenue	$ 500	$ 0	$ 500	$ 0	$ 0	$ 0
Service revenue	2	1,005	1,007	41	0	41
Cost of sales	0	600	600	0	0	0
Units installed	10	10,272	10,282	4	0	0

During the year the Canadian operation licensed the Vancouver territory for a fee of $500. The Brazil operation installed 10,272 beacons and realized revenue of $1,005 beacon revenue. An additional $115 of revenue was received but recognition was deferred as it relates to services to be provided in the future.

Operating Expenses

Following is a summary of the comparative financial information for the past two fiscal years:

	December 31, 2006			December 31, 2005		
	Canada	Brazil	Total	Canada	Brazil	Total
General and administrative	$ 2,522	$ 850	$ 3,372	$ 2,195	$ 486	$ 2,681
Operations	257	1,229	1,486	270	-	270
Marketing and business development	86	-	86	20	-	20
Depreciation and write-down of assets	1,278	557	1,835	301	16	317

General and Administrative

Expenses for general and administrative costs for the twelve-month period were $3,372. The expenses were incurred to operate and staff the corporate office ($2,522) and the administrative cost of the Brazilian venture ($850). Corporate office costs consist mainly of personnel, office rent and administration and travel costs. Included in this cost is a charge for stock based compensation of $564 (2005 - $308) relating to the Company's stock option plan. Administrative costs for Brazil increased during the year as the network was completed and commercial operations commenced in June 2006. The Brazilian subsidiary operates the office in São Paulo in support of the operations in Brazil.

Operations

Operations expenses for 2006 of $1,486 resulted from operating the Brazil network ($1,229), the Calgary network ($220) and Saskatoon network ($37). Operating costs for the networks in Canada have remained relatively constant during the past two years. The Brazil operating costs that were deferred prior to the commencement of commercial operations are now being depreciated.

Marketing and business development

Marketing and business development expenses for 2006 of $86 resulted from activities in Calgary ($50) and Saskatoon ($36). Business development activities consist mainly of travel costs incurred by company officials in order to meet with potential technology partners and customers.

Depreciation and write-down of network assets

Upon commencement of commercial operations in Brazil in June, the Company began depreciating the network costs and amortizing the deferred costs associated with establishing operations. The Company periodically reviews its inventory of network components to identify obsolete items and removes or disposes of these assets. In addition, the valuation is reviewed to determine whether any impairment exists for the valuation of these assets. As a result of this review, it was determined that a charge should be taken against these assets for $961. While these assets remain available for use in future deployments, it was deemed appropriate to adjust the valuation as described.

Other

Gain on reduction of government assistance

Under the terms of the contract with the National Research Council, the amount recorded as government assistance payable has been reduced to the amount originally advanced less repayments made to date. The benefit of the reduced principal of $238 results in income from forgiveness of debt.

Financing expense

During 2005, the Company reached a settlement with a lender relative to a debenture agreement between the parties. The settlement amount of $466 was recorded in 2005 and paid in full in 2006. There was no additional expense or liability in 2006.

Financial Condition, Liquidity and Requirements

The Company had a cash balance of $240 at December 31, 2006. Cash declined in the year by $180 as the cash used in operations of $4,584 (2005 - $3,252); invested in the Brazil network $1,167 (2005 – 3,775) exceeded the funds received through the issuance of shares $5,571 (2005 - $7,026). The company's working capital increased by $829 to $1,426 (2005 - $597).

Subsequent to the year-end, the Company closed a private placement for net proceeds of approximately $3,700. It is expected that this financing will provide sufficient working capital to allow the Company to continue to pursue its business strategy in 2007. The planned increase in Brazil beacon installations for the second quarter of 2007 should significantly reduce cash funding requirements.

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SUMMARY OF QUARTERLY RESULTS ($,000)

(in thousands of Canadian dollars)	Three Months Ended							
	Dec. 31, 2006	Sept. 30, 2006	Jun. 30, 2006	Mar. 31, 2006	Dec. 31, 2005	Sept. 30, 2005	Jun. 30, 2005	Mar. 31, 2005
BEACONS INSTALLED	5,039	5,136	102	10				
STATEMENT OF OPERATIONS								
Revenue - geographic								
Canada	$0	$1	$500	$1	$1	$38	$0	$2
Brazil	514	470	21	6	-	-	-	-
Total	514	471	521	$1	1	38	-	2
Cost of sales - Brazil	331	264	5	-	-	-	-	-
Margin	183	207	516	1	1	38	-	2
Operating expenses								
General and administration	1,105	648	760	859	769	809	524	579
Operations	669	629	123	65	24	108	68	70
Marketing and business development	63	8	7	8	(74)	47	21	26
Foreign exchange, interest expense and other income	(178)	(170)	2	106	441	21	(109)	2
Depreciation and amortization and write down of network assets	1,472	238	64	61	84	78	77	78
Net loss	$(2,948)	$(1,146)	$(440)	$(1,098)	$(1,243)	$(1,025)	$(581)	$(753)
Loss per share ($ per share) (diluted and non-diluted)	$(0.04)	$(0.01)	$(0.00)	$(0.01)	$(0.01)	$(0.02)	$(0.01)	$(0.02)
CASH FLOW INFORMATION								
Operations (including non-cash working capital changes)	$(2,713)	$(1,121)	$(311)	$(439)	$(1,340)	$258	$(1,656)	$(514)
Financing	63	3,308	130	2,070	2,555		3,525	946
Investing	1,112	(477)	(496)	(1,306)	(1,993)	(741)	(546)	(495)
Cash flow	(1,538)	1,710	(677)	325	(778)	(483)	1,323	(63)
Cash, beginning of period	1,778	68	745	420	1,198	1,681	358	421
Cash, end of period	$240	$1,778	$68	$745	$420	$1,198	$1,681	$358
BALANCE SHEET INFORMATION								
Working capital	$1,426	$2,796	$666	$584	$600	$1,059	$2,648	$254
Network, capital and intellectual assets	7,852	9,532	9,293	9,583	8,338	6,429	5,766	5,297
Long-term debt, government assistance	220	588	650	511	511	554	555	3,893
Shareholders' equity	9,058	11,740	9,309	9,656	8,427	6,934	7,859	1,658

Discsussion of Quarterly Results

The quarterly results reflect the transformation of the Company from the development stage into one with significant commercial operations. With the commencement of commercial operations in June 2006, revenue reflected customer sales of beacons and related service rather than only license revenue as was recorded earlier.

Operating expenses have also increased with the level of activity. General and administration expenses now average $702 per quarter exclusive of non-cash stock based compensation charges. Operations expenses have now increased significantly with the costs of operating the

network in Brazil averaging approximately $590. Depreciation and amortization has also increased to reflect the commencement of the network operations in Brazil and the resulting amortization of the capitalized costs. Also at year-end, the Company took an additional charge of $961 to reflect an impairment in value of network assets available for deployment.

Operating results in the fourth quarter reflect the increased general and administrative expenses resulting from the increase in activity in Brazil. Also, the impairment charge and year-end depreciation and amortization charges are reflected in the quarterly loss.

Changes in Accounting Policies

Revenue recognition - As a result of the commencement of commercial operations, the Company adopted new policies relating to revenue recognition and inventory valuation. The Company began to recognize revenue from the sale and installation of wireless location beacon devices and from monthly revenue earned by providing ongoing vehicle location services. Revenue from beacon sales and installation revenue is recognized when the beacon is installed. Revenue from location services is recognized on a monthly basis as the services are provided to the customers.

Foreign exchange - Due to the commencement of operations, the Company adopted a new policy for the conversion of the financial statements of the Company's self-sustaining foreign subsidiary. The financial statements are translated to Canadian dollars using the exchange rate in effect at the balance sheet date for all assets and liabilities, and at average rates of exchange during the year for revenues and expenses. Gains of $182 resulting from these translation adjustments are included in the cumulative translation adjustment account in shareholders' equity.

Financial instruments - The CICA has adopted a new accounting standard, Section 3855, Financial Instruments – Recognition and Measurement, effective for fiscal years beginning on or after October 1, 2006. This section describes the standards for recognizing and measuring financial instruments on the balance sheet and the standards for reporting gains and losses in the financial statements. Financial assets available for sale, assets and liabilities held for trading and derivative financial instruments, part of a hedging relationship or not, have to be measured at fair value. Also, a new location for recognizing certain unrealized gains and losses – other comprehensive income – has been introduced. This provides the ability for certain unrealized gains and losses arising from changes in fair value to be temporarily recorded outside the statement of earnings but in a transparent manner. The new standards are effective for the Company beginning January 1, 2007. Management is in the process of evaluating the effect of the adoption of the new standards on the Company's financial statements but does not expect any material impact.

Disclosure Controls and Procedures

We have assessed the design of our internal controls over financial reporting and during this process we identified certain weaknesses in internal controls over financial reporting which are set out below. The weaknesses in the Company's internal controls over financial reporting discussed below result in a more than remote likelihood that a material misstatement would not be prevented or detected. Management and the Board of Directors work to mitigate the risk of material misstatement, as described more fully below, however, there can be no assurance that the risk can be reduced to less than a remote likelihood of a material misstatement.

Common with many small companies, internal control deficiencies have been identified within the Company's accounting and finance department as a result of a limited number of staff. Two deficiencies were identified:

1. The Company does not have the personnel with all the technical knowledge to identify and address the accounting and reporting implications of complex and non-routine transactions that may arise; and
2. There are an insufficient number of accounting and administrative staff to properly segregate certain duties which require segregation in order to have good internal control.

Management has implemented processes to mitigate the risks arising from these weaknesses. Members of the senior management team oversee material, complex and nonroutine transactions and third-party expert advisors are consulted as needed in connection with the accounting and other implications. Management reporting and detailed working papers are prepared and regularly reviewed by the senior management team. On a quarterly basis, consolidated financial statements are reviewed by the Chief Executive Officer, Chief Financial Officer and the Audit Committee of the Board of Directors.

Business Risks

The Company's ability to continue to generate revenue and achieve positive cash flow in the future is dependent upon various factors, including the level of market acceptance of its services, the degree of competition encountered by the Company, the cost of acquiring new partners, technology risks, the ability to fund continued network deployment and operations, general economic conditions and regulatory requirements.

In order to execute its strategy, the Company may require additional financing for its business development activities, its network deployments and to fund its operations. To date, CLTI has been successful in acquiring financing through private placement of its common shares.

The market for location-based services is just beginning to develop and is subject to rapid technological change. The Company's business plan is focused on attracting and contracting other entities to apply its technology in city, regional or national networks. These third parties will be required to operate the project and invest funds in the infrastructure, working capital, and staff to develop the potential of their contracted area. The Company's continuing research, development and testing may cause significant strain on the Company's management, technical, financial and other resources.

To remain competitive the Company must be able to keep pace with technological developments and change its product lines to meet new demands. The Company will depend on designing and developing products that have not been commercially tested to achieve much of its future growth.

The wireless location solution that the Company offers is an emerging technology, and the application of existing, proposed or future regulation to the Company's offering cannot be reliably determined at this stage of development.

The Company's ability to continue ongoing operations is dependent upon contracting parties to license the Company's technology and then implementing a commercial service business. The Company's ability to generate net income and positive cash flow in the future is dependent upon various factors, including:

- technological change and market acceptance of the Company's technology;
- the ability to enter into license agreements to deploy and operate the Company's proprietary wireless location network technology;
- the degree of competition encountered by the Company;
- the Company's ability to manage growth; and
- the changes in currency exchange rates in countries where the Company has currency exposure.

Consolidated Financial Statements of

CELL-LOC LOCATION TECHNOLOGIES INC.

For the years ended December 31, 2006 and 2005

Management's Report

The accompanying consolidated financial statements are the responsibility of management and have been approved by the Board of Directors of the Company. Management has prepared and presented the consolidated financial statements in accordance with accounting principles generally accepted in Canada and has made any significant accounting judgments and estimates required. Management has ensured that financial information contained elsewhere in this Annual Report is consistent with the consolidated financial statements.

Management has developed and maintains systems of internal controls designed to provide reasonable assurance that reliable and relevant financial information is produced. Policies and procedures are designed to give reasonable assurance that transactions are properly authorized, assets are safeguarded and financial records properly maintained to provide reliable financial statements.

The Board of Directors is responsible for reviewing and approving the consolidated financial statements and ensuring Management meets their financial reporting responsibilities.

The Audit Committee consists solely of directors who are not officers of the Company and reviews with Management and the external auditors the annual consolidated financial statements of the Company prior to submission to the Board of Directors for final approval. The Audit Committee also meets during the year with Management and the external auditors to discuss internal control issues, auditing matters and financial reporting issues. External auditors have free access to the Audit Committee without obtaining Management approval.

The shareholders have appointed KPMG LLP as the external auditors of the Company, and in this capacity, they have examined the consolidated financial statements as at December 31, 2006 and 2005 and for the periods then ended.

April 17, 2007

Sheldon Reid

SHELDON D. REID
PRESIDENT & CEO

DAVID D. GUEBERT
VP FINANCE & CFO

KPMG

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AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Cell-Loc Location Technologies Inc. (the "Company") as at December 31, 2006 and 2005 and the consolidated statements of operations and deficit and cash flows for each of the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2006 and 2005 and the results of its operations and its cash flows for each of the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Calgary, Canada
April 17, 2007

CELL-LOC LOCATION TECHNOLOGIES INC.

Consolidated Balance Sheets
(In thousands of dollars)

	December 31, 2006	December 31, 2005
Assets		
Current assets:		
Cash and cash equivalents	$ 240	$ 420
Restricted cash (note 3)	77	77
Accounts receivable	225	58
Deposits and advances	967	802
Inventory	258	-
Other current assets	234	234
	2,001	1,591
Network assets (note 4)	7,270	7,804
Capital assets (note 4)	434	311
Intellectual property and other intangible assets (note 4)	148	223
	$ 9,853	$ 9,929
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank operating line	$ 54	$ -
Accounts payable and accrued liabilities (note 5)	395	991
Deferred revenue	126	3
	575	994
Government assistance (note 5)	220	508
	795	1,502
Shareholders' equity:		
Share capital (note 6)	20,151	14,634
Contributed surplus	1,050	486
Cumulative translation adjustment	182	-
Deficit	(12,325)	(6,693)
	9,058	8,427
Future operations (note 1)		
Commitments and contingencies (note 9)		
Subsequent events (note 12)		
	$ 9,853	$ 9,929

See accompanying notes to consolidated financial statements.

On behalf of the Board

Bohdan (Don) Romaniuk

Charles H.D. Hotzel

CELL-LOC LOCATION TECHNOLOGIES INC.

Consolidated Statements of Operations and Deficit
For the year ended December 31, 2006 with figures for the year ended December 31, 2005
(In thousands of dollars except per share data)

	2006	2005
Revenues	$ 1,507	$ 41
Cost of sales	600	-
Gross margin	907	41
Operating expenses:		
Operations	1,486	270
Marketing and business development	86	20
General and administrative	3,372	2,681
Write-down of network assets	961	-
Depreciation and amortization	874	317
Total operating expenses	6,779	3,288
Loss from operations	(5,872)	(3,247)
Less:		
Gain on reduction of government assistance debt (note 5)	(238)	-
Interest expense	3	2
Interest income	(11)	(3)
Financing expense	-	466
Foreign exchange loss (gain)	3	(110)
Income taxes (recovery)	3	-
Net loss	$ (5,632)	$ (3,602)
Deficit, beginning of the year	(6,693)	(3,091)
Deficit, end of year	$ (12,325)	$ (6,693)
Net loss per share	$ (0.06)	$ (0.06)
Weighted average number of shares outstanding:		
Basic and fully diluted	96,656,305	56,156,684
Shares issued and outstanding	110,261,830	83,003,113

See accompanying notes to consolidated financial statements.

CELL-LOC LOCATION TECHNOLOGIES INC.

Consolidated Statements of Cash Flows
For the year ended December 31, 2006 with figures for the year ended December 31, 2005
(In thousands of dollars except per share data)

	2006	2005
Cash provided by (used in):		
Operating:		
Net loss for the period	$ (5,632)	$ (3,602)
Items not affecting cash:		
Depreciation and amortization	874	317
Write-down of network assets	961	-
Gain on reduction of government assistance debt (note 5)	(238)	-
Stock based compensation (note 6(c))	564	308
	(3,471)	(2,977)
Change in non-cash working capital	(1,113)	(275)
	(4,584)	(3,252)
Financing:		
Realized foreign exchange loss	-	(118)
Issue of common stock, net of issue costs	5,517	7,146
Bank operating line	54	-
Restricted cash	-	(2)
	5,571	7,026
Investing:		
Network assets	(947)	(3,659)
Intellectual property and capital assets	(220)	(116)
	(1,167)	(3,775)
Decrease in cash and equivalents	(180)	(1)
Cash and equivalents, beginning of period	420	421
Cash and equivalents, end of period	$ 240	$ 420
Interest paid	$ 3	$ 2

See accompanying notes to consolidated financial statements

(In thousands of dollars except per share data)

Cell-Loc Location Technologies Inc. (the "Company" or "CLTI") is in the business of researching, developing and licensing its network-based wireless location technology, which integrates proprietary hardware, software and scientific algorithms. CLTI is focused on its Beacon technology, which enables location-based services such as fleet tracking, stolen vehicle recovery, inventory tracking, etc. With licensees and through joint ventures, CLTI's goal is to deploy wireless location networks and support the offering of location-based services. Using this model, revenue will come to the Company through upfront licensing fees and royalties, as well as through its joint venture ownership of operating networks.

1. Future operations:

In 2006, the Company completed the deployment of a network in São Paulo, Brazil and installed its beacon device in a number of vehicles prior to December 31, 2006. In the coming year the Company will focus on expanding its network in Brazil and deploying networks in other geographic regions.

The Company will continue to deploy existing assets and expertise to model the commercial viability of the service. The Company's network assets are carried at their cost, less impairment arising due to obsolescence or to the likelihood that certain assets may not be used in deploying the networking technology. The net carrying value of deployed assets is $5,154 (2005 - $4,634) and available network assets is $1,934 (2005 - $3,170) for a total network asset of $7,088 (2005 - $7,804). The carrying value of the Company's network assets is dependent upon successful commercial operation in existing networks and future deployment of the Company's network assets and the penetration of its service offering into additional markets. Although the deployable assets have been written down by $961 ($7,648 since 2003), they remain available for use by the Company in future network deployment opportunities. The timing and commercial success of future network deployment remains uncertain. Should substantial deployment of the network assets not take place, the value of these assets may become subject to impairment.

The Company's ability to generate sales, net income and positive cash flows is dependent upon various factors including its ability to identify appropriate business partners, the degree of competition, technology development activity, the ability to fund continued network deployments and operations, the presence of positive general economic conditions and favorable regulatory requirements.

These consolidated financial statements have been prepared on the basis that the Company will continue to raise sufficient financing and to realize its assets and discharge its obligations in the ordinary course of business and do not reflect adjustments, such as revaluation to liquidation values and reclassification of balance sheet items, that would otherwise be necessary if the going concern assumption was not valid.

2. Significant accounting policies:

The consolidated financial statements of the Company and its subsidiaries have been prepared in accordance with accounting principles generally accepted in Canada and are denominated in Canadian dollars.

(a) Consolidation:

The consolidated financial statements include the accounts of CLTI and its subsidiaries hereinafter collectively referred to as the "Company" or "CLTI". Subsidiaries include the following companies, their location and CLTI's ownership interest:

X3 Telecomunicações e Equipamentos Ltda. (Brazil)	74%
CityTrac Ltd. (Canada)	75%

2. **Significant accounting policies: (continued)**

The Company has entered into a license agreement and joint venture agreement for the Calgary network whereby CLTI owns 30% of the operating company; however, CLTI is responsible for 100% of the network capital costs and network operating costs prior to realization of commercial revenue from the network. To date, there has not been any material commercial activity in the Calgary network.

There is no minority interest reflected on the balance sheet as subsidiaries with minority shareholders have not had material equity contributions from the minority shareholders and these subsidiaries have incurred losses to date.

The Company holds a 35% ownership in a joint venture to license the Company's proprietary Code Division Multiple Access ("CDMA") technology in China. No activity has been recorded related to the joint venture during the years ended December 31, 2006 and 2005.

(b) Use of estimates:

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from estimates.

(c) Cash and cash equivalents:

Cash and cash equivalents consist of cash balances with banks and short-term investments with original maturities of less than three months. The fair value of cash and cash equivalents approximates the amounts shown in the financial statements.

(d) Foreign currency translation:

Financial statements of the Company's self-sustaining foreign subsidiary are translated to Canadian dollars using the exchange rate in effect at the balance sheet date for all assets and liabilities, and at average rates of exchange during the year for revenues and expenses. Gains or losses resulting from these translation adjustments are included in the cumulative translation adjustment account in shareholders' equity.

(e) Long term assets:

Network assets represent assets that have been deployed into networks, as well as components and in-process assets that are on hand to be manufactured into wireless location products and deployed within the Company's future networks. These network assets are depreciated over their estimated useful lives using the declining balance method once they have been deployed and are available for commercial use. Long-term assets are recorded at cost and impairment arising to obsolescence or to the likelihood that certain assets may not be used, in which case they are written down to fair value. These assets are depreciated over their estimated useful lives using following methods and annual rates:

2. Significant accounting policies: (continued)

Assets	Method	Rate
Network assets	Declining balance	20% - 30%
Capital assets	Declining balance	30%
Intellectual property	Declining balance	40% - 60%
Patents and trademarks	Straight-line	20%

Amortization of costs related to network assets begins once the Company commences commercial operations.

When events and circumstances warrant a review, the Company evaluates the carrying value of its long-term assets for potential impairment. An impairment loss is recognized when the estimated net recoverable amount of a long-term asset is less than its carrying value. An impairment loss is measured as the amount by which the carrying amount exceeds its fair value. Any impairment in these assets is written off against earnings in the year that such impairment becomes evident.

(f) Inventory

Inventory consists of beacons available for sale and is valued at the lower of cost and net realizable value, and cost of sales is determined using the first in first out method.

(g) Revenue recognition

The Company derives revenue from the sale of geographic licenses; the sale and installation of wireless location beacon devices; and from monthly revenue earned by providing ongoing vehicle location services. Revenue for license sales is realized when all conditions of the contract are fulfilled and the licensing fee is collectable. Revenue from beacon sales and installation revenue is recognized when the beacon is installed. Revenue from location services is recognized on a monthly basis as the services are provided to the customers.

(h) Income taxes:

The Company uses the liability method of tax allocation in accounting for income taxes. Under this method, future income tax liabilities and future income tax assets are determined based on differences between the financial reporting and tax bases of assets and liabilities, and measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse.

(i) Per share data:

Basic and diluted per share amounts are calculated using the weighted average number of common shares outstanding during the period. The Company uses the treasury stock method for determining dilution, whereby all options and convertible instruments whose average price is less than or equal to the daily weighted average share price of the period to date are considered outstanding and are deemed to have been converted, if diluted at the average share price for the period. Diluted net loss per share is not presented, as the result would be anti-dilutive.

(In thousands of dollars except per share data)

2. Significant accounting policies: (continued)

(j) Stock-based compensation plans:

The Company has adopted fair value accounting for stock based compensation. Under this method, all equity instruments awarded to employees and the cost of the service received as consideration are measured and recognized based on the fair value of the equity instruments issued with corresponding amount credited to Contributed surplus. Compensation expense is recognized over the period of related employee service, usually the vesting period of the equity instrument awarded.

3. Restricted cash:

Restricted cash is comprised of cash invested in term deposits with a Canadian chartered bank held as collateral for a letter of credit in the amount of $75, which is held as security for a building lease by the Company's landlord.

4. Long term assets:

December 31, 2006	Cost	Accumulated depreciation	Net book value
Network assets:			
Assets available for network deployment	$ 1,934	$ –	$ 1,934
Assets deployed in networks	6,326	990	5,336
	8,260	990	7,270
Capital assets:			
Equipment and furniture	757	323	434
Leasehold improvements	44	44	–
	801	367	434
Intellectual property and other intangible:			
Patents and trademarks	382	234	148
	$ 9,443	$ 1,591	$ 7,852

December 31, 2005	Cost	Accumulated depreciation	Net book value
Network assets:			
Assets available for network deployment	$ 3,170	$ –	$ 3,170
Assets deployed in networks	4,922	288	4,634
	8,092	288	7,804
Capital assets:			
Equipment and furniture	545	234	311
Leasehold improvements	44	44	–
	589	278	311
Intellectual property and other intangible:			
Patents and trademarks	381	158	223
	$ 9,062	$ 724	$ 8,338

(In thousands of dollars except per share data)

5. Long-term debt, government assistance:

The Company assumed obligations related to the contribution agreement dated September 1, 1999 with the National Research Council Industrial Research Assistance Program ("IRAP"). Pursuant to this agreement the Company was initially required to repay 150% of the amounts received through the IRAP to a maximum of $750. Payments are to be made at a rate of 4% of the Company's revenue until the earlier of full repayment or August 30, 2011. To the extent that the maximum amount was not fully paid by August 30, 2006, payments continue at a rate of 4% of the Company's revenue but the required repayment is reduced to the total amount originally funded less amounts already paid. The benefit of the reduced principal of $238 results in income from forgiveness of debt. As at December 31, 2006, the Company has established a liability in the amount of $270 (2005 - $551) less a current portion of $50 (2005 - $43), which is included in accounts payable and accrued liabilities.

The Company entered into a debenture agreement with a lender in November 2004 to provide funding of up to US$3,500 to deploy the network in Brazil. The Company decided not to draw on the financing available under this debenture and entered into an agreement with the lender to terminate the debenture agreement. Under the terms of this agreement, CLTI paid the lender US$400 as full payment for fees and costs related to the debenture.

6. Share capital:

(a) Authorized: Unlimited number common shares

(b) Issued and outstanding:

	Common Shares	Amount
Outstanding at December 31, 2005	83,003,113	$ 14,634
Issued for cash from treasury, net of issue cost	26,888,000	5,427
Issued for cash from warrants	370,717	90
Outstanding at December 31, 2006	110,261,830	$ 20,151

(c) Stock option plan:

The Company has a stock option plan (the "ESOP") for directors, officers and employees. Under the ESOP on the grant date 1/3 of options issued are vested, and the remaining options vest equally at the end of one and two years of service or at the completion of certain project milestones. The exercise price was based upon the common stock market price at the grant date. The estimated fair value of stock options at the grant date has been determined using the Black-Scholes option-pricing model with the following assumptions: (i) the expected dividend rate of 0% and expected volatility; (ii) risk-free interest rate as based on comparable term Canadian Government securities at the date of issue. Expected option life for the option used was equal to the lesser of the actual option life or 2 years.

(In thousands of dollars except per share data)

6. Share capital: (continued)

A summary of option activity during 2006 is shown below:

	Number	Range of Exercise Prices		Weighted average exercise price	Black-Scholes fair market range	
Outstanding at Dec. 31, 2005	5,159,912	$ 0.120	$ 47.700	$ 0.312	$ 0.082	$ 0.206
Granted during 2006	3,516,854	$ 0.195	$ 0.340	$ 0.285	$ 0.112	$ 0.241
Options expired	(689,402)	$ 0.160	$ 2.750	$ 0.649	$ 0.040	$ 0.227
Outstanding at Dec. 31, 2006	7,987,364	$ 0.120	$ 1.600	$ 0.271	$ 0.041	$ 0.241

		Options outstanding			Options exercisable		Compensation Expense	
Range of exercise price outstanding		Number outstanding	Weighted average remaining contractual life (months)	Weighted average exercise price	Number exercisable	Weighted average exercise price	2006	2005
$ 0.12	$ 0.30	5,964,837	42	$ 0.21	3,835,522	$ 0.21	$ 564	$ 308
0.32	0.53	2,022,527	49	0.32	694,535	0.32	-	-
1.55	1.60	200,000	6	1.58	200,000	1.58	-	-
$ 0.12	$ 1.60	7,987,364	43	$ 0.27	4,730,057	$ 0.28	$ 564	$ 308

(d) Share purchase warrants:

The Company periodically issues share purchase warrants to private placement investors as part of its financing activities. In addition, broker warrants are issued to agents when financing is arranged through brokers. The warrants entitle the holders to acquire common shares of the company at a specified price for a defined period of time of up to two years. The warrants are priced at a premium to the market price of the shares at the time of issue. As a result, the warrants were not accorded any value on issuance. Current year activity for outstanding warrants is summarized as follows:

	Share Purchase Warrants	**Broker Warrants**
Warrants outstanding at December 31, 2005	20,962,498	1,374,200
Issued during year	20,969,000	1,500,000
Exercised during year	(320,716)	(50,000)
Expired during year	(2,492,433)	-
Warrants outstanding at December 31, 2006	39,118,349	2,824,200

(In thousands of dollars except per share data)

6. Share capital: (continued)

Share purchase warrants outstanding at December 31, 2006 are summarized as follows:

Year of Expiry	Range of Exercise Price Outstanding				Number outstanding	Weighted average remaining life (month)	Weighted average exercise price	
2007	$	0.22	$	1.91	18,149,349	5.1	$	0.262
2008		0.28		0.40	20,969,000	18.7		0.306
	$	0.22	$	1.91	39,118,349	12.4	$	0.285

Broker unit warrants outstanding at December 31, 2006 are summarized as follows:

Year of Expiry	Range of Exercise Price Outstanding				Number outstanding	Weighted average remaining life (month)	Weighted average exercise price	
2007	$	0.20	$	0.30	1,324,200	11.2	$	0.220
2008		0.20		0.20	1,500,000	20.0		0.200
	$	0.20	$	0.30	2,824,200	15.8	$	0.209

Share purchase warrants outstanding at December 31, 2005 are summarized as follows:

Year of Expiry	Range of Exercise Price Outstanding				Number outstanding	Weighted average remaining life (month)	Weighted average exercise price	
2006	$	0.22	$	2.32	13,496,498	11.2	$	0.250
2007		0.30		1.91	7,466,000	22.8		0.315
	$	0.22	$	2.32	20,962,498	15.3	$	0.273

Broker unit warrants outstanding at December 31, 2005 are summarized as follows:

Year of Expiry	Range of Exercise Price Outstanding				Number outstanding	Weighted average remaining life (month)	Weighted average exercise price	
2007	$	0.20	$	0.30	1,374,200	23.2	$	0.220

(In thousands of dollars except per share data)

7. Income taxes:

Income tax expense varies from the amount that would be computed by applying the combined Federal and Provincial statutory tax rates. The Company does not anticipate a future tax benefit from operating losses incurred in Brazil. The future tax benefit is determined as follows:

	December 31, 2006	December 31, 2005
Expected recovery at 32.5% (2005 – 33.6%)	$ (1,829)	$ (1,210)
Decrease (increase) resulting from:		
Benefit of future tax assets not recognized	$ 984	$ 1,102
Foreign losses	665	104
Non-deductible expenses	183	4
Income tax	$ 3	$ –

The significant components of the Company's future Canadian income tax assets and liabilities are as follows:

	December 31, 2006	December 31, 2005
Future tax assets:		
Non-capital losses	$ 2,236	$ 1,769
Network, capital and intangible assets	1,450	1,570
Share issue costs	151	–
	3,837	3,339
Future tax asset valuation allowance	(3,837)	(3,339)
Net future tax asset	$ –	$ –

At December 31, 2006, the company has non-capital income tax losses in Canada of approximately $7,700 (2005 - $5,268), which may be carried forward to reduce future years' taxable incomes. These losses begin to expire in 2013. In addition, the Company has non-capital income tax losses in Brazil of approximately $3,837 (2005 - $1,973) which, depending on filing position, may be utilized to reduce future years' income taxes.

8. Financial instruments:

Financial instruments are comprised of cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities. The carrying value of the Company's financial current assets and liabilities approximate their estimated fair values as at December 31, 2006 due to their short terms to maturity. The carrying value of government assistance has not been discounted as the repayment terms cannot be estimated because the repayment requirements are dependent upon future sales. The Company manages its exposure to these risks by operating in a manner that minimizes exposure to the extent practical.

The Company is exposed to interest rate risk to the extent that it carries cash and cash equivalents and restricted cash, and available market interest rates, from which the Company earns interest revenue, fluctuate. The Company is also exposed to foreign exchange risk from changes in the value of the Brazilian Real as a result of its ongoing investment and operations in of its Brazilian subsidiary. The Company does not use and is not subject to the settlements of forward exchange contracts in managing this risk.

(In thousands of dollars except per share data)

8. Financial instruments (continued):

The Company is exposed to concentrations of credit risk as the Brazilian segment operates under an exclusive agreement with Itaú Seguros S.A. ("Itaú Seguros"), the insurance subsidiary of Investments Itaú S.A. The value of the Brazilian operations and trade receivables are dependent upon Itaú Seguros S.A. Investments Itaú S.A. is investment grade rated by credit ratings agencies.

9. Commitments and contingencies:

Future minimum annual lease payments under tower and office operating leases are as follows:

	Canada	Brazil	Total
2007	$ 375	$ 997	$ 1,372
2008	106	779	885
2009	44	500	544
2010	36	203	239
2011 and thereafter	21	64	85
Total	$ 582	$ 2,543	$ 3,125

10. Segmented Information:

CLTI operates in two geographic segments of Canada and Brazil. Other than the financial statement items specifically noted below, all operations are located in Canada. The segmented information for 2006 is:

	Canada	Brazil	Total
Current Assets	$ 271	$ 1,730	$ 2,001
Current Liabilities	274	301	575
Network assets	2,348	4,922	7,270
Capital assets	154	280	434
Revenues	$ 502	$ 1,005	$ 1,507
Cost of sales		600	600
Gross Margin	502	405	907
Operating expenses, excluding depreciation and amortization	2,865	2,079	4,944
Depreciation, amortization and write-down of assets	1,278	557	1,835
Loss from operations	$ (3,641)	$ (2,231)	$ (5,872)

(In thousands of dollars except per share data)

10. Segmented Information (continued):

The segmented information for 2005 is:

	Canada	Brazil	Total
Current Assets	$ 1,148	$ 443	$ 1,591
Current Liabilities	832	162	994
Network assets	3,757	4,047	7,804
Capital assets	208	103	311
Long-term debt	508	–	508
Revenues	$ 41	$ –	$ 41
Operating expenses, excluding depreciation and amortization	2,428	433	2,861
Depreciation and amortization	301	16	317
Loss from operations	$ (2,688)	$ (449)	$ (3,137)

11. Related Party Transactions:

During the year, the Company received $500 from Location System Solutions Inc. ("LSSI"), a company controlled by a director of CLTI, for a license for the Company's technology in the Greater Vancouver, BC territory. In addition to the Vancouver license, LSSI owns rights for the existing Calgary network and rights to CLTI technology in Austin, TX and any further networks to be developed in Alberta.

12. Subsequent events:

(a) During January 2007, the Company completed a private placement consisting of 20,000,000 units ("Units") in the capital of the Company for gross proceeds of approximately $4,000 at a price of $0.20 per Unit. Each Unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder thereof to acquire one common share at an exercise price of $0.28 per common share, at any time on or before the 24 month anniversary of the closing of the offering, subject to adjustment in certain events.

(b) During February 2007, the Company granted 2,455,000 stock options to employees and directors with an exercise price of $0.265 of which 1/3 were vested on the grant date and the remaining vesting equally at the end of one and two years of service.

CORPORATE INFORMATION

Board of Directors

Bohdan (Don) Romaniuk*
Chair of the Board
Business Executive
Calgary, Alberta

Keith Bohn
Business Executive
Calgary, Alberta

Dr. Michel Fattouche
Chief Technical Officer
Cell-Loc Location Technologies Inc.
Calgary, Alberta

Charles Hotzel*
Barrister and Solicitor
Charles Hotzel & Associates
Calgary, Alberta

Michael Lisogurski*
President
MR Liscom Consulting
Aurora, Ontario

Sheldon Reid
President & CEO
Cell-Loc Location Technologies Inc.
Calgary, Alberta

Luiz de Campos Salles
Business Executive
São Paulo, Brazil

* member of Audit Committee

Officers

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President & CEO

Dr. Michel Fattouche
Chief Technical Officer

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